

**The National Taxpayer Advocate
Has Taken Significant Steps to Implement
Selected Provisions of the Internal Revenue
Service Restructuring and Reform Act of 1998**

August 2002

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 16, 2002

MEMORANDUM FOR NATIONAL TAXPAYER ADVOCATE

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The National Taxpayer Advocate Has Taken Significant Steps to Implement Selected Provisions of the Internal Revenue Service Restructuring and Reform Act of 1998 (Audit # 200110054)

This report presents the results of our review of selected provisions of the IRS Restructuring and Reform Act of 1998¹ pertaining to the Taxpayer Advocate Office to determine whether the Internal Revenue Service (IRS) effectively implemented these provisions.

In summary, the National Taxpayer Advocate (NTA) has taken significant steps in establishing an independent Taxpayer Advocate Service (TAS) by creating an independent organizational structure, establishing a working relationship with other IRS operations, and opening at least one Taxpayer Advocate Office in each state. In addition, the NTA has taken measures to increase the assurance that taxpayers who may need the assistance of the TAS are made aware of how to contact their Local Taxpayer Advocate (LTA) by providing TAS contacts on the Internet and creating a TAS notice that is included with the IRS' Notice of Tax Deficiencies.

However, the TAS can improve the clarity of its independence statement by informing taxpayers that Taxpayer Advocate Offices report directly to the Congress through the NTA. The TAS can also enhance efforts to ensure its local telephone numbers are timely published in the local telephone books by establishing a process to verify that the correct telephone number is ordered. The TAS has been working with other IRS

¹ Pub. L. No. 105-206 § 1102(c), 112 Stat. 685 (1998).

business functions to requisition the placement of LTA telephone numbers in local telephone directories. At the time of our inquiry, the IRS had not yet ordered telephone numbers for 13 of the LTA offices. The TAS does not have a process in place to verify that the correct telephone number has been requisitioned until after it has been published in the local directories. Thus, if the telephone number is incorrect or is not published, it may take another 12 months to have the telephone number published. To ensure taxpayers with hardships are able to find their Taxpayer Advocate, we recommend that the NTA enhance its current processes to establish TAS telephone numbers in local directories by receiving verification that the correct telephone numbers have been ordered prior to the issuance of the telephone books.

Management's Response: The NTA agreed with our findings and recommendations and TAS management has initiated corrective actions. The TAS clarified guidance provided to employees on the use of the independence statement and designed new TAS stationery that includes the completed independence statement. The TAS has developed a new process for listing Taxpayer Advocate telephone numbers in local directories. The procedures outlining this process will be distributed to each local office. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as Appendix V.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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Background

The mission of the Taxpayer Advocate Service (TAS) is to independently represent and protect taxpayer rights for those individuals that have not been able to resolve their federal tax problems through normal channels. To assist in accomplishing its mission, the TAS established strategic goals, which include providing top quality service to each taxpayer in every interaction, providing service to all taxpayers through fair and uniform application of the law, and increasing productivity through a quality work environment.

The Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA 98)¹ required the IRS to establish a TAS organizational structure that operates independent of the IRS. To make the shift to a more independent organization and ensure that top quality service is accessible and known to all taxpayers, the RRA 98 requires the IRS to perform the following:

- Each Local Taxpayer Advocate (LTA) office is to maintain a separate telephone, facsimile, and other electronic communication access, and a separate post office address.
- Each local Advocate at the initial meeting with any taxpayer seeking an Advocate's assistance shall notify the taxpayer that TAS operates independently of other IRS operations and reports directly to the Congress through the National Taxpayer Advocate (NTA).
- The NTA is responsible for ensuring that each state has at least one Taxpayer Advocate and shall monitor the coverage and geographic allocation of each of these local offices.
- Each LTA may consult with the appropriate IRS supervisory personnel regarding the daily operation of the LTA office.
- The NTA shall ensure each LTA telephone number is made available to all taxpayers served by that

¹ Pub. L. No. 105-206 § 1102(c), 112 Stat. 685 (1998).

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office and published in the telephone books where the office is located.

- The IRS Notice of Tax Deficiency shall include a statement that informs the taxpayer of their right to contact the Taxpayer Advocate and include the address and telephone number of the LTA.

The General Services Administration (GSA) is in charge of a federal government project that negotiates with telephone book publishing companies to include the federal telephone numbers that GSA has received from federal agencies. If a local telephone directory is not part of the federal government project then individual orders need to be placed to assure the number is listed.

In 2001, the NTA implemented a process to ensure that the LTA telephone numbers are listed in local telephone directories. Each LTA office reviewed its telephone directories and provided the National TAS Communications Coordinator with a list of cities that needed the LTA telephone number included in the local telephone directory. This list distinguishes between those cities, which are covered by the federal government project that lists all federal agency telephone numbers in one section of the local telephone directory and those not included in the project.

The TAS Communications Coordinator provides these LTA telephone numbers either to an IRS centralized contact to be included in the GSA project or to another IRS contact that will place an individual order for a particular city.

We conducted our review between November 2001 and June 2002 at the TAS headquarters, and the Birmingham, Phoenix, Ft. Lauderdale, Indianapolis, Andover, Detroit, Las Vegas, Salt Lake City, Seattle, and Milwaukee local TAS offices. The audit was performed in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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The Internal Revenue Service Has Made Significant Progress in Creating an Independent Taxpayer Advocate Service

The RRA 98 required the NTA to resolve taxpayer problems through an organization that is independent of other IRS operations. The NTA has made significant progress in creating an independent organizational structure and has taken actions to educate customers on the independence of TAS during the initial contact with the taxpayer. The TAS has also ensured that although they are an independent organizational structure they have the necessary access to IRS employees and information to resolve taxpayer problems. In addition, the TAS has opened at least one Taxpayer Advocate Office in each state, which increases assurances that taxpayers are able to contact a local Advocate for assistance.

The Congress, in the RRA 98 provisions, made the TAS more independent from other IRS operations and in the same legislation included clauses that still allowed them to communicate freely with other IRS operations to carry out their daily activities. To comply with this provision, the NTA has established TAS procedures to allow Advocates to contact other IRS employees to resolve taxpayer problems.

The TAS established procedures which require employees to either provide an oral statement of independence during the initial contact with the taxpayer or that a written statement of independence be included when corresponding with the customer. Advocate employees inform taxpayers that the Taxpayer Advocate Office operates independently of any other IRS office. The TAS has implemented this requirement by including this independence statement with all of the initial contact correspondence sent to customers.

An analysis of 382 case files selected as part of a statistically valid sample of cases from the Taxpayer Advocate Management Information System showed that the TAS was able to demonstrate it was generally complying with the procedures for 298 (78 percent) of the customers. Each of these case files contained documentation such as case history entries, Advocate contact sheets, or correspondence letters indicating that the taxpayer had been notified of the independence of the Taxpayer Advocate. The case files for the remaining 84 (22 percent) customers did not contain documentation indicating the information on

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Taxpayer Advocate independence was provided. In some instances, Advocate employees may have provided taxpayers the information, but they did not document this fact in the case files. Prompted by the case files that did not show documentation of this statement, TAS managers at nine of the LTA offices briefed their staff on the importance of providing and documenting this statutory case action.

However, RRA 98 also requires Advocate employees to inform taxpayers that Taxpayer Advocate Offices report directly to the Congress through the NTA. As a result of an oversight by the TAS, neither the oral statement nor the written statement includes this part of the statutory provision. Thus, none of the 382 sampled TAS cases contained documentation showing this part of the statement, which was designed to inform taxpayers of TAS independence.

In addition, RRA 98 required the TAS to establish electronic communications such as telephone, facsimile, and other electronic communication access that are separate from other IRS operations. The TAS is also required to have its mail received separately from the other IRS operations.

A judgmental sample of 10 randomly selected local offices of the Taxpayer Advocate showed that all 10 had established local telephone numbers and facsimiles separate from the IRS. Also, while all 10 offices had its mail handled by IRS shared services, 9 offices received the mail unopened. The office that received its mail opened was located in an IRS processing center, which required all mail to be opened by clerks in a secured environment. Once opened, the mail is sent directly to the local Advocate and is not screened by the compliance function.

Recommendation

1. The NTA needs to modify its oral and written communication provided to the taxpayer to include the statement that Taxpayer Advocate Offices report directly to the Congress through the NTA.

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The National Taxpayer Advocate Can Enhance Efforts to List the Telephone Numbers of the Local Taxpayer Advocate Offices

Management's Response: The NTA agreed with this recommendation and has clarified guidance for TAS employees on the use of the independence statement; revised the language in the Internal Revenue Manual section dealing with taxpayer contacts, and designed new TAS stationery, which now includes the complete independence statement as a footer.

The NTA has implemented several actions to increase assurances that taxpayers are provided with information on TAS and on how to contact a local Advocate for assistance. These actions increase the probability that taxpayers will actually receive the assistance needed to resolve their tax problems. The actions implemented by the NTA include:

- Creating an IRS notice to be included with the Notice of Tax Deficiencies that explains the TAS and provides the local addresses and telephone numbers for all Taxpayer Advocate Offices. This was performed as a temporary measure until IRS compliance operations modified its statutory notice of deficiencies to include the TAS information.
- Coordinating efforts with IRS marketing personnel to have the TAS services and location contacts listed on the IRS' Digital Daily. The Digital Daily is a newsletter accessible through the World Wide Web.
- Creating IRS Publication 1564, which explains the services provided by TAS and includes the local addresses and telephone numbers for all Advocate offices. Publication 1564 is also accessible on the Internet.

However, the TAS can enhance efforts to ensure its local telephone numbers are timely published in local telephone directories and in local telephone directory assistance operations by establishing a process to verify that requests to publish correct telephone numbers have been initiated. Analysis of local telephone directories and inquiries to National Directory Assistance operations showed that the telephone numbers of the LTA offices were available through either the local telephone directory or the National

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Directory Assistance telephone number (1-Area Code-555-1212) for 47 of 64 LTA offices. Specifically, our analysis showed the following:

- Only 33 of 64 LTA offices had the correct telephone number listed in the local telephone directory. In March 2001, the TAS implemented a process to coordinate with other IRS business functions to have LTA telephone numbers placed in local telephone directories. Due to the timing differences between the start of this process and the publication date of the local telephone directory, 18 of the remaining 31 LTA telephone numbers were not included in the most recent local telephone directory. However, no process existed to verify that the LTA telephone numbers had been requisitioned by the other IRS business functions. As a result, 13 of the LTA telephone numbers had not been requisitioned at the time of our inquiry and are at risk of not being included in the next published local telephone directory. Subsequent to our inquiry, 10 of the 13 LTA telephone numbers had been ordered.
- Only 38 of 64 LTA offices had the correct telephone number provided by directory assistance. The TAS does not have a process to include LTA telephone numbers in directory assistance operations. As a result, the TAS has no assurance that directory assistance operations will provide the correct telephone numbers of the LTA offices.

TAS management stated that establishing directory assistance was not given a top priority because several barriers existed which prevent it from ensuring that consistent and accurate service is provided to taxpayers. For example, TAS advised that it identified over 150 services that provide directory assistance service, which makes it difficult to maintain accurate telephone numbers. It also found that directory assistance services usually receive their data from telephone directories; thus, improving the accuracy of local telephone directories should improve the accuracy of directory assistance operations. Another barrier is that the accuracy of the service provider is largely dependent upon the requester asking for the listing

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in a manner that matches the way the telephone number is actually listed by the service provider.

Prior to March 2001, TAS did not have a process to ensure that the telephone numbers for LTA offices were placed in local telephone directories. To correct this problem, a TAS Communications Coordinator was assigned the responsibility of accumulating a list of telephone numbers to be published for each of the 64 LTA offices. Because this RRA 98 requirement to publish the local office telephone numbers in their area telephone books applies to all IRS offices, the TAS Communications Coordinator has been working with other IRS business functions to requisition the placement of LTA telephone numbers in local telephone directories. However, the TAS Communications Coordinator did not have a process in place to verify that the correct telephone number has been requisitioned until after it had been published in the local telephone directory. Thus, if the LTA telephone number is incorrect or is not published, it may take another 12 months to correct the error.

The verification process could include matching the telephone number provided by the LTA with the telephone number listed on either the GSA federal telephone project web-site or the actual purchase order submitted to the publisher. Under the current TAS process some taxpayers may not receive the assistance of their LTA office because they were unable to locate the correct telephone number.

Recommendation

2. The NTA needs to enhance its efforts to ensure its local telephone numbers are timely published in local telephone books by establishing a process to verify that the correct telephone numbers are ordered prior to the issuance of the telephone books.

Management's Response: The NTA agreed with this recommendation and has developed a new process for listing Taxpayer Advocate telephone numbers in local directories. The procedures outlining this process will be distributed to each local office.

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the Internal Revenue Service (IRS) effectively implemented selected provisions of the IRS Restructuring and Reform Act of 1998¹ pertaining to the Taxpayer Advocate Office.

To accomplish our objective, we performed the following audit tests.

- I. To determine whether the National Taxpayer Advocate (NTA) implemented the provisions of RRA 98 to create a more independent Taxpayer Advocate and whether the NTA had implemented procedures to establish the working relationship with other IRS offices, we performed the following.
 - A. Obtained and reviewed NTA procedures related to the RRA 98 provisions.
 - B. Selected a judgmental sample of 10 of 74 Advocate offices which includes the 10 service center locations to verify whether these offices had established separate telephone, facsimile, and email addresses as well as a separate post office address from other IRS operations.
 - C. Selected a statistical sample of 382 cases from the 68,222 cases closed from the Taxpayer Advocate Management Information System (TAMIS) for the first quarter of Fiscal Year 2002, to determine whether the Advocates were informing taxpayers that the Taxpayer Advocate Service (TAS) was independent of other IRS operations and reports directly to the Congress through the National Taxpayer Advocate (NTA).
 - D. Reviewed the geographic locations of the LTA offices to ensure each of the 50 states contain at least 1 Advocate office.
- II. To determine whether the NTA implemented the provisions of RRA 98 to ensure that top quality service is available and known to all taxpayers, we performed the following.
 - A. Reviewed telephone books for all 64 LTA offices to verify the appropriate LTA telephone number was included.
 - B. Evaluated the NTA's methods for advertising on the Internet.
 - C. Evaluated the action the NTA took to implement the RRA 98 requirement for the IRS statutory Notice of Tax Deficiencies to include the statement that taxpayers

¹ Pub. L. No. 105-206 § 1102(c), 112 Stat. 685 (1998).

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have the right to contact TAS and include the address and telephone number of the LTA.

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner N:DC
Chief Counsel CC
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
Audit Liaison: National Taxpayer Advocate TA

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Appendix IV

Detailed Sampling Plan

Overall Sample Criteria -

Type of Sample:	Attribute
Confidence Level:	95%
Desired Precision Rate:	+/-5%
Expected Rate of Occurrence:	Not to exceed 50%
Formula Used to Calculate Initial Sample Size:	$n = p(1-p)SE/t^{**2} + p(1-p)/N:$ <p>n = sample size = 382 p = expected rate of occurrence = .50 SE = desired precision = 5 t = confidence level factor = 1.96 N = audit universe = 68,222</p>

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Appendix V

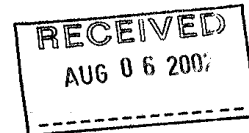
Management's Response to the Draft Report




National
Taxpayer Advocate

Department of the Treasury
Internal Revenue Service
Washington, DC 20224

AUG - 1 2002



MEMORANDUM FOR PAM GARDINER, DEPUTY INSPECTOR GENERAL
FOR AUDIT

FROM: Nina E. Olson 
National Taxpayer Advocate

SUBJECT: Draft Audit Report - The National Taxpayer Advocate Has
Taken Significant Steps to Implement Selected Provisions
of the Restructuring and Reform Act of 1998
(Audit # 200110054)

Your report acknowledged the Taxpayer Advocate Service (TAS) has successfully implemented legislative requirements of the Restructuring and Reform Act of 1998 (RRA98) that specifically deal with the establishing an independent TAS organization.

Your audit shows we have taken the necessary actions to implement the provisions of RRA98 relating to TAS. You also note our efforts to increase public awareness of our organization and ways to contact a Local Advocate for assistance. Because of our marketing efforts, the National Taxpayer Advocate's toll-free number receives the majority of calls from taxpayers seeking TAS assistance. I believe we need to go beyond ensuring our numbers are published in local directories. Therefore, as I noted in my Fiscal Year 2003 Objectives Report to Congress on June 30, 2002, we recently initiated a research project to improve public awareness and ensure we focus our efforts and resources toward those most in need of our services. TAS will design a revised marketing campaign based on these research results and plan and initiate a focused outreach strategy.

I agree with your findings about providing taxpayers our independence statement. Although we "established procedures requiring our employees to provide the independence statement," we were not adequately emphasizing the Taxpayer Advocate reports "directly to Congress through the National Taxpayer Advocate." I recently clarified this statement to all TAS employees, and reemphasized the need to provide the entire language about our independence and the reporting structure.

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To correct and clarify the statutory requirements management also:

- Clarified guidance for TAS employees on the use of the independence statement,
- Revised the language in the Internal Revenue Manual section dealing with taxpayer contacts, and
- Designed new TAS stationery (Attachment 1) to include the complete independence statement as a footer.

We completed all actions this month.

I agree TAS should establish validation requirements for the listing of Taxpayer Advocate phone numbers in local directories. We developed the process outlined in Attachment 2 to address the discrepancies identified in your audit. We will provide the procedures outlining this process to each local office by July 31, 2002.

If you have any questions or concerns, please call me or Rena Girinakis at (202) 622-4321.

Attachments (2)

Sample of new TAS stationery
Processes and procedures for getting TAS Local office
Telephone Numbers listed in Major Market Telephone Directories